

STUDENT TUITION ASSISTANCE AND
REVENUE TRUST PROGRAM
A PRIVATE-PURPOSE TRUST FUND
OF THE STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
ISSUED DECEMBER 12, 2007

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
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LEGISLATIVE AUDITOR

STEVE J. THERIOT, CPA

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Twelve copies of this public document were produced at an approximate cost of \$45.00. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.state.la.us. When contacting the office, you may refer to Agency ID No. 7417 or Report ID No. 06803354 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225-339-3800.

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STUDENT TUITION ASSISTANCE AND
REVENUE TRUST PROGRAM



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LEGISLATIVE AUDITOR

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November 5, 2007

Independent Auditor's Report
on the Financial Statements

**BOARD OF DIRECTORS OF THE LOUISIANA
TUITION TRUST AUTHORITY
STUDENT TUITION ASSISTANCE AND
REVENUE TRUST PROGRAM
STATE OF LOUISIANA**
Baton Rouge, Louisiana

We have audited the accompanying basic financial statements of the Student Tuition Assistance and Revenue Trust Program, a private-purpose trust fund of the State of Louisiana, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of management of the Student Tuition Assistance and Revenue Trust Program. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the accompanying financial statements present only the Student Tuition Assistance and Revenue Trust Program and do not purport to and do not present fairly the financial position of the State of Louisiana as of December 31, 2006, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Student Tuition Assistance and Revenue Trust Program as of December 31, 2006, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

STUDENT TUITION ASSISTANCE AND REVENUE TRUST PROGRAM

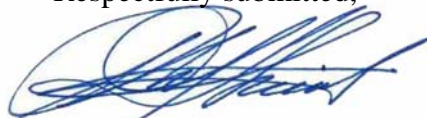
During August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While the Student Tuition Assistance and Revenue Trust Program did not directly suffer any major effects of these two hurricanes, the long-term effects of these events directly on the Student Tuition Assistance and Revenue Trust Program cannot be determined at this time.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2007, on our consideration of the Student Tuition Assistance and Revenue Trust Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 7 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Student Tuition Assistance and Revenue Trust Program. The accompanying supplementary information, including the Combining Statement of Fiduciary Net Assets, the Combining Statement of Changes in Fiduciary Net Assets, and the Schedule of Investments, on pages 23-29, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The statements and schedule have been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

KS:CGEW:THC:sr/dl

START06

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Student Tuition Assistance and Revenue Trust (START) Program, we offer readers of START's financial statements this narrative overview and analysis of the financial activities of START for the year ended December 31, 2006. START is administered by the Louisiana Office of Student Financial Assistance (LOSFA) under the direction of the Louisiana Tuition Trust Authority (LATTA). The responsibility for selection of START investments and the investment of START funds rests with the state treasurer.

FINANCIAL HIGHLIGHTS

- The assets of START exceeded its liabilities at the close of the most recent fiscal year by \$137,486,995 (net assets held in trust for participants).
- START's total net assets increased by \$39,665,976 from \$97,821,019 on December 31, 2005, to \$137,486,995 on December 31, 2006.
- The net number of accounts increased by 3,064 from 20,037 on December 31, 2005, to 23,101 on December 31, 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to START's basic financial statements. START's basic financial statements comprise three components: (1) Statement of Net Assets, (2) Statement of Changes in Net Assets, and (3) Notes to the Financial Statements. These financial statements include the activities of START's fixed and variable investments. This report includes a Combining Statement of Fiduciary Net Assets, a Combining Statement of Changes in Fiduciary Net Assets, and a Schedule of Investments presented as supplementary information in addition to the basic financial statements.

The Statement of Net Assets presents information on all of START's assets and liabilities, with the difference between the two reported as net assets held in trust for participants. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of START is improving or deteriorating.

The Statement of Changes in Net Assets presents information showing how START's net assets changed during the most recent calendar year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., accrued interest receivable).

Notes to the Financial Statements. The accompanying notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

STUDENT TUITION ASSISTANCE AND REVENUE TRUST PROGRAM

BASIC FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of START, assets exceeded liabilities by \$137,486,995 at the close of the most recent year, December 31, 2006. By far the largest portion of START's net assets (89%) reflects its investments at fair market value. The following is START's net assets at December 31, 2006. This is START's first year to report its activities separately on its calendar fiscal year; therefore, comparative data for December 31, 2005, is not available.

Fiduciary Net Assets As of December 31, 2006

Cash	\$14,391,197
Investments at fair market value	122,265,593
Accrued interest receivable	830,205
Total Assets	<u>137,486,995</u>
Total Liabilities	<u>NONE</u>
Net Assets Held in Trust for START Participants	<u>\$137,486,995</u>

Changes in Net Assets. Key elements of the changes for the year ended December 31, 2006, are as follows:

Changes in Fiduciary Net Assets For the Year Ended December 31, 2006

From investment activities:	
Investment income	\$4,750,654
Net increase in fair value of investments	5,014,413
Increase in net assets from investment activities	<u>9,765,067</u>
From participants' transactions:	
Deposits	33,865,268
Disbursements	(5,664,359)
Increase in net assets from participants' transactions	<u>28,200,909</u>
Increase in net assets from state general fund appropriation	<u>1,700,000</u>
Total increase in net assets	39,665,976
Net assets, beginning of year	<u>97,821,019</u>
Net assets, end of year	<u>\$137,486,995</u>

ECONOMIC OUTLOOK

Though the long-term effects of hurricanes Katrina and Rita on the State of Louisiana cannot be fully determined, START expects to continue to see significant increases in new accounts and deposits. As the program matures, and more beneficiaries of accounts reach college age, and the costs of college attendance continue to increase, START expects disbursements for qualified higher education expenses to continue to increase.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of START's finances for all those with an interest in START's finances. For questions concerning any of the information provided in this report or requests for additional financial information, please access the START website, www.startsaving.la.gov, or call the START office at (225) 922-1012 or toll free at 1-800-259-5626 extension 1012.

STUDENT TUITION ASSISTANCE AND
REVENUE TRUST PROGRAM

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**STUDENT TUITION ASSISTANCE AND
REVENUE TRUST PROGRAM
STATE OF LOUISIANA
FIDUCIARY FUND - PRIVATE-PURPOSE TRUST FUND**

Statement of Fiduciary Net Assets, December 31, 2006

ASSETS

Cash (note 2)	\$14,391,197
Investments (note 3)	122,265,593
Interest receivable	<u>830,205</u>

TOTAL ASSETS	<u>137,486,995</u>
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LIABILITIES

<u>NONE</u>

NET ASSETS HELD IN TRUST FOR START PARTICIPANTS	<u><u>\$137,486,995</u></u>
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The accompanying notes are an integral part of this statement.

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**STUDENT TUITION ASSISTANCE AND
REVENUE TRUST PROGRAM
STATE OF LOUISIANA
FIDUCIARY FUND - PRIVATE-PURPOSE TRUST FUND**

**Statement of Changes in Fiduciary Net Assets
For the Year Ended December 31, 2006**

ADDITIONS

Participant deposits	\$33,865,268
Investment income:	
Interest and dividends	4,750,654
Net increase in fair value of investments	5,014,413
Appropriated from state General Fund for earnings enhancements	<u>1,700,000</u>
 Total additions	 <u>45,330,335</u>

DEDUCTIONS - DISBURSEMENTS TO PARTICIPANTS

Change in net assets	<u>39,665,976</u>
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NET ASSETS, BEGINNING OF YEAR	<u>97,821,019</u>
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NET ASSETS, END OF YEAR	<u><u>\$137,486,995</u></u>
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The accompanying notes are an integral part of this statement.

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INTRODUCTION

The Louisiana Student Tuition Assistance and Revenue Trust (START) Program is a private-purpose trust fund of the State of Louisiana created under the provisions of Louisiana Revised Statutes (R.S.) 17:3091 et seq., within the Louisiana Tuition Trust Authority (LATTA), and is domiciled in East Baton Rouge Parish. START is administered by the Louisiana Office of Student Financial Assistance (LOSFA), an agency of the State of Louisiana created under the Department of Education by R.S. 36:650, under the direction of LATTA (R.S. 17:3093). LATTA is comprised of 23 members representing all areas of education, the state treasurer, a representative from the Louisiana House of Representatives, and a representative from the Louisiana Senate.

START was created to help make education affordable and accessible to all residents of Louisiana, to encourage savings, and to enhance the ability of residents to obtain access to institutions of postsecondary education. START allows individuals to save for qualified higher education expenses for the postsecondary education of the program's education savings account (ESA) beneficiaries. START is Louisiana's qualified tuition program under Section 529 of the Internal Revenue Code (IRC) of 1986, as amended, and treats deposits in a tax-favored manner under the provisions of Section 529, IRC. To encourage college savings, the State of Louisiana matches a portion of an account owner's deposits and does not tax START earnings when used to pay for qualified higher education expenses.

Qualified higher education expenses are:

- (1) tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a designated beneficiary at an eligible educational institution;
- (2) room and board; and
- (3) expenses for special needs services in the case of a special needs beneficiary, which are incurred in connection with such enrollment or attendance.

Participation in START is voluntary, and all deposits to an ESA are credited to a single ESA for a designated beneficiary. An account owner may select a START investment option that offers fixed earnings, variable earnings, or both.

An account owner may open only one account per beneficiary; however, multiple account owners may establish an account for one beneficiary. An account may be opened by an individual, a legal entity, or a custodian who meets the following requirements:

- Both the account owner and the beneficiary are United States citizens and/or permanent residents of the United States.
- Either the account owner or the beneficiary must be a Louisiana resident.

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- Individual account owners must be at least 18 years old at the time the ESA is opened.
- An authorized representative of a legal entity must open the ESA in the name of the legal entity.
- Custodians for minors under the Uniform Transfers to Minors Act and custodians of minors appointed by courts of competent jurisdiction may open ESAs in the name of the minor; however, these ESAs earn a maximum earnings enhancement of 2%.

Account owners may withdraw their deposits at any time. However, the account owner forfeits the State of Louisiana's match and the earnings on the amount matched when funds are withdrawn for other than qualified higher education expenses. The forfeited match and earnings are retained by START and are available for allocation to the remaining account owners. Account owners who withdraw deposits for other than qualified higher education expenses are responsible for any resulting income tax liability.

The START disclosure statement and participation agreements can be obtained at the START website, www.startsaving.la.gov, or by calling the START office at (225) 922-1012 or toll free at 1-800-259-5626 extension 1012.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The accompanying financial statements present information only as to the balances of the START program. Annually, the State of Louisiana issues basic financial statements, which include the activity contained in the accompanying financial statements for the START funds - the Louisiana Education Tuition and Savings Fund comprised of Vanguard Investments and the START Investors Fund and the Savings Enhancement Fund. The state's basic financial statements are audited by the Louisiana Legislative Auditor.

B. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The financial statements of START are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, additions are recognized when earned and deductions are recognized when incurred.

C. CASH AND INVESTMENTS

Cash represents amounts on deposit with the custodian, fiscal agent banks, and/or the investment advisors. Under state law, START may deposit funds with a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. START provides broad guidelines for acceptable investments by authorizing any investments in which Louisiana public retirement boards are authorized by law to invest and by authorizing investment of up to 100% of deposits in equity securities, based on the investment options chosen by account owners. All deposits are invested on behalf of the program by the state treasurer. START's permissible investments are limited by the investment options selected by the state treasurer. START's investments are stated at fair value based on actual value and quoted market values. The fair value of investments is determined on a business-day basis.

Deposits are classified in one of two subaccounts: fixed earnings or variable earnings. Each subaccount consists of separate assets. The fixed earnings subaccount consists of deposits in a fixed earnings option, earnings on the deposits, forfeitures of interest, all other receipts from any other source that LATTA determines appropriate, and the Savings Enhancement Fund, which includes state appropriated earnings enhancements and the earnings thereon. The variable earnings subaccount consists of deposits in a variable earnings option that are held prior to investment by START in mutual funds managed by the Vanguard Group or held prior to disbursement or refund.

Deposits in fixed earnings are invested by the state treasurer, and deposits in variable earnings options are held in the fund subaccount until they are invested by the state treasurer in one or more mutual funds managed by the Vanguard Group. Account holders own an interest in the investments held by START, but do not own shares of the underlying Vanguard funds.

START currently offers the following investment options:

- Age-Based Option - deposits are automatically moved over time among different portfolios with progressively more conservative asset allocations.
- Louisiana Principal Protection Option - 100% of deposits and interest earned thereon are invested in the Louisiana Fixed Return Investments portfolio managed

STUDENT TUITION ASSISTANCE AND REVENUE TRUST PROGRAM

by the state treasurer. The state guarantees the return of account owners' principal and interest earned thereon.

- Total Equity Option - 100% of each deposit is invested in the Vanguard Total Stock Market Index Fund Institutional Shares (VITSX), under which owners seek the highest possible returns and assume the highest possible risk.
- Balanced Option - 50% of each deposit is invested in the VITSX, and 50% is invested in the Louisiana Fixed Return Investments portfolio managed by the state treasurer.
- Equity-Plus Option - 75% of each deposit is invested in the VITSX, and 25% is invested in the Louisiana Fixed Return Investments portfolio managed by the state treasurer.
- Principal Preservation-Plus Option - 25% of each deposit is invested in the VITSX, and 75% is invested in the Louisiana Fixed Return Investments portfolio managed by the state treasurer.

The current contract with the Vanguard Group, the state treasurer, and LATTA expires on July 17, 2008, at which time a new contract will be negotiated with an equity manager selected by the state treasurer.

2. DEPOSITS WITH FINANCIAL INSTITUTIONS

For reporting purposes, deposits with financial institutions consist of demand deposits and funds received from participants for investment in a zero balance bank account. START deposits are pooled with all deposits in the State of Louisiana's general fund and special funds, separately managed funds, State of Louisiana bond issue funds, et cetera, and are carried at cost.

As reflected on the Statement of Fiduciary Net Assets (Statement A), START has deposits in bank accounts (cash) totaling \$14,391,197 at December 31, 2006.

Custodial credit risk is the risk that in the event of a bank failure, START's deposits may not be recovered. Under state law, START's deposits must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. A quarterly review for uncollateralized funds is performed by the state treasurer. In addition, the treasurer reviews the collateral at least monthly between the quarterly reviews and takes appropriate action as necessary to ensure collateral is sufficient for cash deposits.

NOTES TO THE FINANCIAL STATEMENTS

3. INVESTMENTS

Investments of \$122,265,593, as presented on Statement A, are reported at fair value. The following table itemizes the investments, the range of maturity dates, and fair market value of investments at December 31, 2006, and the change in investments during the year.

<u>Investment Securities</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater than 10</u>
Corporate Securities	\$1,171,605		\$179,545	\$992,060	
Federal Farm Credit Bank	600,241			600,241	
Federal Home Loan Bank	26,557,078	\$3,000,000	3,492,335	15,711,049	\$4,353,694
Federal Home Loan Mortgage Corporation	23,574,606	1,000,080	5,672,193	14,957,953	1,944,380
Federal National Mortgage Association	<u>11,335,214</u>		<u>3,976,880</u>	<u>7,358,334</u>	
Total	<u>\$63,238,744</u>	<u>\$4,000,080</u>	<u>\$13,320,953</u>	<u>\$39,619,637</u>	<u>\$6,298,074</u>

Change in Investments - Fair Market Value

Balance, December 31, 2005	\$84,851,561
Add:	
Investment purchases	39,178,579
Market value adjustment	<u>5,014,413</u>
Total	129,044,553
Less - investment sales/redemptions	<u>(6,778,960)</u>
Balance, December 31, 2006	<u>\$122,265,593</u>

Unrealized investment gains exceeded unrealized investment losses by \$5,014,413 at year-end. This net unrealized investment gain is reflected in the year-end investments since they are reported at fair market value.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, START will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. START investments are a part of the state's total investment portfolio. START funds invested in the Louisiana Principal Protection Option and the fixed earnings portion of other options, and the Savings Enhancement Fund are registered in the name of the State of Louisiana and are held in JP Morgan Chase Bank. The Vanguard Group manages funds invested in START equity options.

STUDENT TUITION ASSISTANCE AND REVENUE TRUST PROGRAM

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. R.S. 17:3099 permits START to invest its funds in any investments in which public retirement boards are authorized by law to invest, provided that up to 100% of deposits to an ESA may be invested in equity securities when an account owner has selected an equity investment option and that such investments in equity securities shall not be included in any limitation on investment in equity securities.

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. START account owners have several options from which to choose for investment of their deposits. These options range from 100% equity investments, which are not guaranteed by the state, to 100% invested in the Louisiana Principal Protection Option (these deposits and the interest earned thereon are guaranteed by the state). However, account owners are limited to investment in only one option at a time. Account owners may change their investment option once during any 12-month period. Account owners assume the risk associated with the option they select.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The state treasury has no specific policies to limit interest rate risk for START investments.

4. INVESTMENT INCOME

Investment income is recognized when earned using the full accrual method of accounting. The investments in START are stated at fair value based on quoted market rates, and any increases or decreases are reported as net increase (decrease) in the fair value of investments. The fair value of investments is determined on a business-day basis.

Interest is calculated on a daily basis and is credited to accounts and reported to account owners after the conclusion of the calendar year in which the interest was earned. For purposes of determining account owners' shares sold and redeemed, and for financial statement purposes, investments are valued and reported at fair market value, respectively. Realized gains/losses are a part of the net increase/decrease in the fair value of investments.

START's objectives include providing safety of principal and daily liquidity with a competitive rate of return to account owners by pooling monies. The following table shows the START's annual average daily yield percentage for the year ended December 31, 2006:

NOTES TO THE FINANCIAL STATEMENTS

<u>Portfolio</u>	<u>Annual Interest Rate</u>
Vanguard LifeStrategy Moderate Growth (Age-Based Option, ages 0-5)	13.31%
Vanguard LifeStrategy Conservative Growth (Age-Based Option, ages 6-10)	10.62%
Vanguard LifeStrategy Income (Age-Based Option, ages 11-15)	7.93%
Vanguard Total Stock Market Index Fund Institutional Shares (Total Equity Option)	15.69%
Louisiana Fixed Return Investments (Louisiana Principal Protection Option and Age-Based Option, ages 16 and above)	5.11%
Earnings Enhancements	4.67%

5. SAVINGS ENHANCEMENT FUND

R.S. 17:3092 established the Savings Enhancement Fund to receive funds appropriated by the legislature or donated from any other source for the purpose of funding earnings enhancements. Earnings enhancements are annually appropriated by the legislature and represent payments credited to an ESA to help offset the beneficiary's qualified higher education expenses. The amount of the earnings enhancements credited to an account is based on the account owner's annual income and annual deposits of principal. Earnings enhancements and the interest earned thereon may only be disbursed for qualified higher education expenses and may not be refunded to the account owner if an account is closed. Earnings enhancements are recognized when appropriated by the legislature. As shown on Statement B, the earnings enhancements appropriated by the legislature to the START program for the current year totaled \$1,700,000.

6. ADMINISTRATIVE CHARGES

The Vanguard Group charges investment fees to START for the funds it manages and invests. These investment fees vary for each mutual fund up to a maximum of 0.26% per year and are subject to change at any time without notice. Earnings credited to the ESAs invested in Vanguard mutual funds are net of these investment fees. Costs incurred by LATTA, LOSFA, and the state treasurer to administer START are paid by those agencies and are not charged to the ESAs.

7. LITIGATION

There is no pending litigation against START at December 31, 2006.

STUDENT TUITION ASSISTANCE AND REVENUE TRUST PROGRAM

8. SUBSEQUENT EVENT

On September 20, 2007, LOSFA was notified by Iron Mountain Off-site Data Protection (Iron Mountain), its contractor for data storage, that Iron Mountain had lost data tapes belonging to the agency on September 19, 2007. These tapes included personal data for individuals who had transactions with LOSFA, including personal data for START account owners and beneficiaries. LOSFA is working with the Louisiana Attorney General and the Federal Bureau of Investigation to conclude investigations in this matter, and LOSFA has begun notifying individuals of the breach in security.

On October 31, 2007, LOSFA received notification that a class action was filed in Orleans Parish against Iron Mountain and LOSFA seeking unspecified damages as a result of the lost data tapes. Any potential liability on the part of the state is unknown at this time.

**COMBINING STATEMENTS AND
SUPPLEMENTAL SCHEDULE**

The following presents the Combining Statement of Fiduciary Net Assets and the Combining Statement of Changes in Fiduciary Net Assets as of and for the year ended December 31, 2006, for the Student Tuition Assistance and Revenue Trust Program. This program includes the Louisiana Education Tuition and Savings Fund and the Savings Enhancement Fund. Schedule 1 presents individual investments held by START at December 31, 2006.

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REVENUE TRUST PROGRAM

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**STUDENT TUITION ASSISTANCE AND
REVENUE TRUST PROGRAM
STATE OF LOUISIANA
FIDUCIARY FUND - PRIVATE-PURPOSE TRUST FUND**

Combining Statement of Fiduciary Net Assets, December 31, 2006

	LOUISIANA EDUCATION TUITION AND SAVINGS FUND	SAVINGS ENHANCEMENT FUND	TOTAL
ASSETS			
Cash	\$13,457,861	\$933,336	\$14,391,197
Investments	116,735,014	5,530,579	122,265,593
Interest receivable	759,490	70,715	830,205
TOTAL ASSETS	130,952,365	6,534,630	137,486,995
LIABILITIES	NONE	NONE	NONE
NET ASSETS HELD IN TRUST FOR START PARTICIPANTS	<u>\$130,952,365</u>	<u>\$6,534,630</u>	<u>\$137,486,995</u>

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**STUDENT TUITION ASSISTANCE AND
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STATE OF LOUISIANA
FIDUCIARY FUND - PRIVATE-PURPOSE TRUST FUND**

**Combining Statement of Changes in Fiduciary Net Assets
For the Year Ended December 31, 2006**

	LOUISIANA EDUCATION TUITION AND SAVINGS FUND	SAVINGS ENHANCEMENT FUND	TOTAL
ADDITIONS			
Participant deposits	\$33,647,143	\$218,125	\$33,865,268
Investment income:			
Interest and dividends	4,594,282	156,372	4,750,654
Net increase in fair value of investments	5,014,413		5,014,413
Appropriated from state General Fund for earnings enhancements		1,700,000	1,700,000
	<u>43,255,838</u>	<u>2,074,497</u>	<u>45,330,335</u>
Total additions			
	<u>43,255,838</u>	<u>2,074,497</u>	<u>45,330,335</u>
DEDUCTIONS - DISBURSEMENTS TO PARTICIPANTS	<u>(5,490,532)</u>	<u>(173,827)</u>	<u>(5,664,359)</u>
Change in net assets	37,765,306	1,900,670	39,665,976
NET ASSETS, BEGINNING OF YEAR	<u>93,187,059</u>	<u>4,633,960</u>	<u>97,821,019</u>
NET ASSETS, END OF YEAR	<u><u>\$130,952,365</u></u>	<u><u>\$6,534,630</u></u>	<u><u>\$137,486,995</u></u>

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**STUDENT TUITION ASSISTANCE AND
REVENUE TRUST PROGRAM
STATE OF LOUISIANA**

Schedule of Investments, December 31, 2006

FACE AMOUNT	DESCRIPTION	MATURITY DATE	COUPON RATE	FAIR VALUE
FIXED EARNINGS INVESTMENTS AND EARNINGS ENHANCEMENTS				
Corporate Securities:				
\$175,000	Bellsouth Corp.	10/15/11	6.000%	\$179,545
1,000,000	Student Loan Marketing Corp.	05/15/14	5.375%	992,060
<u>\$1,175,000</u>		Total Corporate Securities		<u>\$1,171,605</u>
Federal Farm Credit Bank:				
\$50,000		06/22/15	5.300%	\$48,407
570,000		06/22/15	5.300%	551,834
<u>\$620,000</u>		Total Federal Farm Credit Bank Notes		<u>\$600,241</u>
Federal National Mortgage Association Notes:				
\$2,000,000		06/18/08	5.250%	\$1,997,500
2,000,000		11/10/10	5.010%	1,979,380
350,000		08/01/12	5.250%	351,750
1,000,000		08/01/12	5.250%	1,005,000
350,000		08/15/13	5.300%	347,484
1,740,000		04/16/14	5.000%	1,695,961
2,000,000		02/25/15	5.400%	1,966,880
2,000,000		10/16/16	6.000%	1,991,260
<u>\$11,440,000</u>		Total Federal National Mortgage Association Notes		<u>\$11,335,215</u>
Federal Home Loan Bank:				
\$1,500,000		05/01/07	5.125%	\$1,500,000
1,500,000		05/01/07	5.125%	1,500,000
1,500,000		04/23/09	5.375%	1,496,715
2,000,000		04/23/09	5.375%	1,995,620

(Continued)

**STUDENT TUITION ASSISTANCE AND
REVENUE TRUST PROGRAM
STATE OF LOUISIANA
Schedule of Investments, December 31, 2006**

FACE AMOUNT	DESCRIPTION	MATURITY DATE	COUPON RATE	FAIR VALUE
Federal Home Loan Bank (Cont.):				
\$2,000,000		05/16/12	5.200%	\$1,974,380
500,000		01/28/13	5.200%	492,500
3,000,000		01/28/13	5.200%	2,955,000
475,000		09/22/14	5.350%	467,134
2,000,000		09/22/14	5.350%	1,966,880
2,500,000		01/12/15	5.375%	2,457,825
3,000,000		02/17/15	5.250%	2,937,180
2,500,000		05/12/15	5.450%	2,460,150
440,719		12/04/17	5.750%	433,694
2,000,000		05/18/20	5.750%	1,949,380
2,000,000		05/18/20	5.500%	1,970,620
<u>\$26,915,719</u>		Total Federal Home Loan Bank Notes		<u>\$26,557,078</u>
Federal Home Loan Mortgage Corporation:				
\$20,000		03/21/11	5.875%	\$20,562
230,000		03/21/11	5.875%	236,470
300,000		03/12/10	4.250%	293,075
50,000		06/12/13	4.000%	47,110
50,000		01/27/15	5.350%	49,156
50,000		10/28/14	5.250%	49,020
375,000		10/10/12	5.000%	367,665
3,200,000		03/12/10	4.250%	3,126,144
2,000,000		03/05/19	5.200%	1,944,380
4,070,000		01/27/15	5.350%	4,001,299
2,000,000		10/28/14	5.250%	1,960,820
2,500,000		12/28/12	5.000%	2,416,100
1,000,000		04/27/07	5.250%	1,000,080
5,000,000		12/01/15	6.125%	4,988,300
2,000,000		11/20/09	5.250%	1,995,940
1,100,000		10/10/12	5.000%	1,078,484
<u>\$23,945,000</u>		Total Federal Home Loan Mortgage Corporation		<u>\$23,574,605</u>
<u>\$64,095,719</u>		Total Fixed Earnings Investments and Earnings Enhancements		<u>\$63,238,744</u>

(Continued)

**STUDENT TUITION ASSISTANCE AND
REVENUE TRUST PROGRAM
STATE OF LOUISIANA
Schedule of Investments, December 31, 2006**

VARIABLE EARNINGS INVESTMENTS

The Vanguard Group (Mutual Funds):

Life Strategy Income Portfolio	\$5,040,914
Life Strategy Conservative Growth Portfolio	7,725,066
Total Stock Market Index Fund-Institutional Shares	37,050,702
Life Strategy Moderate Growth Portfolio	<u>9,210,167</u>

Total Vanguard Mutual Funds	<u>\$59,026,849</u>
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Total Investments	<u>\$122,265,593</u>
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(Concluded)

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OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain our report on internal control over financial reporting and on compliance with laws and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.

STUDENT TUITION ASSISTANCE AND
REVENUE TRUST PROGRAM

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

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November 5, 2007

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Basic Financial Statements
Performed in Accordance With *Government Auditing Standards*

**BOARD OF DIRECTORS OF THE LOUISIANA
TUITION TRUST AUTHORITY
STUDENT TUITION ASSISTANCE AND
REVENUE TRUST PROGRAM
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the basic financial statements of the Student Tuition Assistance and Revenue Trust (START) Program, a component unit of the State of Louisiana, as of and for the year ended December 31, 2006, and have issued our report thereon dated November 5, 2007. Our report was modified to include an emphasis of a matter regarding the impact of hurricanes Katrina and Rita. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered START's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of START's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of START's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record,

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Inaccurate Annual Financial Statements

START did not have adequate controls over its financial reporting process to ensure that its annual financial statements for the year ended December 31, 2006, were accurate and complete. Good internal controls include establishing an adequate review process to ensure that these financial statements are accurately prepared. However, START's annual financial statements submitted to the Louisiana Legislative Auditor (LLA) for audit included the following errors and omissions:

- START incorrectly recorded interest receivable on the Statement of Net Assets and interest income on the Statement of Changes in Net Assets totaling \$420,391 in the current year for interest that was received and recorded in the prior year, thereby overstating total assets and net assets.
- Increases in net assets from investments and from participant activity on the Statement of Changes in Net Assets were understated by \$2,125,222 and \$9,870,707, respectively. In addition, transfers from the state general fund for the earnings enhancements to be allocated to participants were understated by \$1,700,000. The understatements were offset by an overstatement in beginning net assets totaling \$13,695,929. These errors occurred because START recognized current year activity as prior year activity. However, these errors did not affect the participants' balances.

Management of START has not ensured that its 2006 annual financial statements were properly prepared and reviewed for errors or omissions. In addition, management is not reconciling participants' balance transactions in its records with the related transactions recorded in the state's Integrated Statewide Information System (ISIS). Failure to submit accurate financial statements can delay the issuance of START's annual audit report. Furthermore, failure to reconcile START's records to ISIS increases the risk that misstatements, whether intentional or unintentional, may occur and remain undetected.

Management of START should ensure that its annual financial statements are properly prepared and should review these statements and the related note disclosures to identify and correct errors before submitting them to LLA. In addition, management should reconcile its recorded participants' transactions with the related activity in ISIS. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 1-3).

STUDENT TUITION ASSISTANCE AND REVENUE TRUST PROGRAM

Inadequate Controls Over Participants' Accounts

START has not established adequate internal controls over disbursements to participants and changes to its participants' accounts. Good internal controls should include an adequate segregation of duties within the disbursement process and a supervisory review of transactions affecting participants' accounts to safeguard assets against losses from errors and to prevent misstatements, whether intentional or unintentional.

Our review of START's internal controls over participants' accounts disclosed that one START employee receives disbursement requests from participants, initiates the disbursement transactions, approves the disbursements for payment, and mails the checks to the participants or their designees. These functions place this employee in a position to both perpetrate and conceal errors and misstatements, whether intentional or unintentional. In addition, the START software applications do not include edit logs, which would provide management with an audit trail of changes made to participants' accounts for management's review and approval.

Failure to establish an adequate segregation of duties over disbursements to participants and the lack of a supervisory review and approval of changes made to participants' accounts increases the risk that misstatements, whether intentional or unintentional, could occur and not be detected timely by employees in the normal course of their duties.

Management of START should properly segregate duties when processing disbursements to its participants and should review and approve all changes made to its participants' accounts. Management concurred with the finding and recommendations stating that "... no errors or misstatements were found to have resulted from the lack of such procedures" and outlined a plan of corrective action (see Appendix A, pages 4-5).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider both of the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether START's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance

with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

START's management responses to the findings identified previously are attached in Appendix A. We did not audit START's responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of START and its management and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

KS:CGEW:THC:sr/dl

START06

Management's Corrective Action
Plans and Responses to the
Findings and Recommendations

STUDENT TUITION ASSISTANCE AND
REVENUE TRUST PROGRAM



STATE OF LOUISIANA
OFFICE OF STUDENT FINANCIAL ASSISTANCE
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Kathleen Babineaux Blanco
GOVERNOR

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August 22, 2007
07-340

Mr. Steve J. Theriot, CPA
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

The audit report dated August 3, 2007 of the Student Tuition Assistance and Revenue Trust (START) Program, administered by the Louisiana Office of Student Financial Assistance (LOSFA) has been received and reviewed. In response to the audit finding "Inaccurate Annual Financial Statements", we do concur with the finding and have made corrective entries to the document. Please refer to the enclosed internal memorandum, which details the corrective actions taken. The responsible staff member for this procedure is Mary Jane Lange, Accountant Administrator.

If additional information is required, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Melanie Amrhein".

Melanie Amrhein
Executive Director

MA/csm

Enclosure

c: Charles Wendt
Mary Jane Lange



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DATE: August 10, 2007

TO: Melanie Amrhein
Executive Director

FROM: Mary Jane Lange
Accountant Administrator *mjl*

RE: Reportable Audit Findings
START Financial Statement

This letter is in response to Legislative Audit finding "Inaccurate Annual Financial Statements".

We concur with the findings and the recommendations on both points listed in the Legislative Audit letter.

The annual financial statement for the Student Tuition Assistance and Revenue Trust Program (START) for the calendar year ended December 31, 2006 was prepared by the Louisiana Office of Student Financial Assistance (LOSFA) for the first time since the inception of the START program. The Office of Statewide Reporting and Accounting Policy (OSRAP) prepared all prior START financial statements as a part of State of Louisiana's Investment pool contained within the Comprehensive Annual Financial Report (CAFR).

There were no prior examples to follow for preparation of these statements. Lack of knowledge in the preparation of a financial statement for an investment fund was the major reason for the errors/omissions. The Louisiana Office of the State Treasury (STO) invests all deposits for the START Saving Program on behalf of the Program. All related records are maintained at STO. Gaining access to necessary data needed to complete the financials from STO was not an easy task. Additionally, the lack of knowledge as to what type of data to request from STO lead to the following errors/omissions:

- Accounts Receivable: Interest Receivable initially included dividends and gains worth \$503,241 as reflected on the Vanguard statements but not reflected in the Integrated Statewide Information System (ISIS). However, these were not true receivables. Interest allocations done by STO in the amount of \$82,850 were not included due to the fact that the reports reflecting the interest allocations were not requested from STO. As a result, Net Assets were overstated by \$420,391 (\$503,241 less \$82,850).
- Statement of Changes in Net Assets: The Statement of Changes in Net Assets was prepared based on OSRAP's model at end of the 2005-2006 state fiscal year. At the end of state fiscal year 2005-2006, all of the ISIS balances are carried forward to the new fiscal year as prior year cash carryover. To prepare the financials for the calendar year 2006, the ISIS data was pulled from two different state fiscal years. January 1, 2006 through June 30, 2006 is within state fiscal year 2005-2006 and June 1, 2006 through December 31, 2006 is within state fiscal year 2006-2007. Since the prior cash

carry over lump sum included all the transactions (activity) from state fiscal year 2005-2006, there was no activity shown on the statements for the six-month period of January through June 2006. This was based on the assumption that the cash carry over included those transactions. Due to this misconception, the beginning net assets were overstated by \$13,695,929 and the increase in net assets from investments and from participant activity on the Statement of Changes in Net Assets were understated by \$2,125,222 and \$9,870,707. This error did not affect the participant's balances.

The Legislative Auditors brought these errors/omissions to the attention of the Fiscal Staff during the course of the audit and the audit adjustments were incorporated into the financial statements as recommended by the auditors. The revised financial statements were forwarded to the auditors.

The preliminary financial statement and all revisions were forwarded via email to the START Division Director and the General Legal Counsel. Any recommended changes were incorporated into the statement and disclosure notes,

Each month, the Fiscal Staff has been sending the monthly ISIS transactions regarding START activity to the START Division for reconciliation purposes.

ISIS inquiry capabilities has been set up for two staff members of the START Division. The Fiscal Staff will work closely with the START Division to insure accuracy in the posting of transactions.



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August 23, 2007
07-342

Mr. Steve J. Theriot, CPA
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

The audit report dated August 3, 2007 of the Student Tuition Assistance and Revenue Trust (START) Program, administered by the Louisiana Office of Student Financial Assistance (LOSFA) has been received and reviewed. In response to the audit finding "Inadequate Controls Over Participants' Accounts", we do concur with the finding and have taken corrective measures to establish procedures, enclosed, to ensure the segregation of duties and supervisory review of transactions. While we agree that these are necessary steps, I do want to point out that no errors or misstatements were found to have resulted from the lack of such procedures. Carol Fulco, Director of the START Savings Program, is the responsible LOSFA staff person for the corrective action.

If additional information is required, please do not hesitate to contact me.

Sincerely,

Melanie Amrhein
Executive Director

MA/csm

Enclosure

c: Charles Wendt
Sujuan Boutte
Carol Fulco



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DATE: August 17, 2007
TO: Melanie Amrhein
Executive Director
THRU: Sujuan Boutte *MB*
Assistant Executive Director
FROM: Carol Fulco *cf*
START Division Director

During the Legislative Audit it was brought to the attention of the Division Director that the disbursement function lacked adequate controls. Management does concur with the auditors' report and has taken steps to remedy the problem.

- START disbursements and refunds that are received by the division are now input by a member of the staff who prepares the check request for Treasury through our Fiscal Division. Upon receipt of the checks from Treasury, another member of the staff receives the checks, matches them to our requests, makes copies and mails the checks along with a transmittal letter.
- Presently changes made in the system to the participant, beneficiary, successor and third party are automatically notated in the History File (Note File). This file indicates what was done, by whom and at what time.
- Further enhancements to controls have been requested of our Information Technology Division. A September 15, 2007 timeframe has been set for implementing the following:
 1. A report will be generated daily that captures copies of all changes made by internal staff sorted by USER ID. This report will be forwarded to the Division Manager, and in her absence, the Administrator. The changes will be reviewed and approved by management.
 2. System access controls will be implemented to limit the person responsible for refunds/disbursements to entering the System Menu to input both qualified (disbursements) and non-qualified (refunds) without having access to changing any information on a participant's record.